

GENERAL HEALTH SYSTEM

Consolidated Financial Statements
and
Audit Reports and Schedules Related to
Office of Management and Budget Circular A-133

Years Ended September 30, 2012 and 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAY 29 2013



GENERAL HEALTH SYSTEM

For the Years Ended September 30, 2012 and 2011

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Independent Auditor's Report

To the Board of Trustees
General Health System

We have audited the accompanying consolidated balance sheets of General Health System (the Company) as of September 30, 2012 and September 30, 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Health System as of September 30, 2012 and September 30, 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of General Health System's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheets as of September 30, 2012 and September 30, 2011, and the consolidating statements of operations for the years then ended are presented for the purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not part of the consolidated financial statements.

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget, *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements.

Such information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements for and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



A Professional Accounting Corporation

December 28, 2012

GENERAL HEALTH SYSTEM
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
	(In Thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 125,512	\$ 124,845
Patient accounts receivable, net (Note 1)	37,125	31,762
Assets whose use is limited	4,523	4,654
Inventories	5,874	8,042
Prepaid expenses and other assets	6,610	8,263
Total current assets	179,644	177,566
Assets whose use is limited, less current portion	60,408	31,418
Assets restricted by donors or grantors for specific purposes	4,215	3,669
Other assets	12,733	12,239
Property and equipment, net	190,154	194,020
Total assets	\$ 447,154	\$ 418,912
Liabilities and net assets		
Current liabilities		
Trade accounts payable	\$ 20,060	\$ 19,188
Accrued expenses	17,974	14,268
Amounts due to contractual third-party payors	2,172	815
Current portion of self-insurance reserves	9,962	8,945
Current portion of long-term debt	21,709	17,853
Total current liabilities	71,877	61,069
Self-insurance reserves, less current portion	3,208	3,857
Long-term debt, less current portion	222,257	210,821
Other noncurrent liabilities	14,888	14,459
Total liabilities	312,230	290,206
Net assets		
Unrestricted	130,709	125,037
Temporarily restricted	4,215	3,669
Total net assets	134,924	128,706
Total liabilities and net assets	\$ 447,154	\$ 418,912

The accompanying notes are an integral part of these consolidated financial statements.

GENERAL HEALTH SYSTEM
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
	<i>(In Thousands)</i>	
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 351,997	\$ 326,008
Investment income	3,426	1,959
Other revenue	39,760	36,362
Net assets released from restrictions	335	593
Total revenues, gains and other support	395,518	364,922
Expenses		
Salaries, wages, and benefits	185,560	170,747
Supplies and other expenses	153,204	138,951
Provision for bad debts	21,725	18,217
Depreciation and amortization	16,107	16,547
Interest expense	11,424	11,813
Total expenses	388,020	356,275
Nonoperating gain	270	2,163
Excess of revenues over expenses	\$ 7,768	\$ 10,810

The accompanying notes are an integral part of these consolidated financial statements.

GENERAL HEALTH SYSTEM**Consolidated Statements of Changes in Net Assets****Years Ended September 30, 2012 and 2011**

	2012	2011
	<i>(In Thousands)</i>	
Unrestricted net assets		
Excess of revenues over expenses	\$ 7,768	\$ 10,810
Charge from minimum pension liability	(1,251)	(3,795)
End of affiliation with Mid City Redevelopment Alliance	(845)	-
Increase in unrestricted net assets	5,672	7,015
Temporarily restricted net assets		
Contributions	881	1,132
Net assets released from restrictions	(335)	(593)
Increase in temporarily restricted net assets	546	539
Increase in net assets	6,218	7,554
Net assets, beginning of year	128,706	121,152
Net assets, end of year	\$ 134,924	\$ 128,706

The accompanying notes are an integral part of these consolidated financial statements.

GENERAL HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	\$ 6,218	\$ 7,554
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,107	16,546
Gain from disposal of assets	-	(394)
Charge from minimum pension liability	1,251	3,795
Amortization of bond premium	(390)	(400)
Provision for bad debts	21,725	18,217
(Increase) decrease in operating assets:		
Patient accounts receivable	(27,088)	(11,317)
Inventories, prepaid expenses and other current assets	3,821	(1,737)
Other assets	(2,104)	(3,008)
Increase (decrease) in operating liabilities:		
Trade accounts payable and accrued expenses	4,578	(8,567)
Accrued self-insurance reserves	368	2,964
Amounts due to contractual third-party payors	1,357	158
Other noncurrent liabilities	429	1,631
Net cash provided by operating activities	26,272	25,442
Cash flows from investing activities		
Purchases of property, plant, and equipment	(11,882)	(12,056)
(Increase) decrease in assets whose use is limited	(28,859)	1,479
Increase in assets restricted by donors for specific purposes	(546)	(539)
Proceeds from disposal of assets	-	394
Purchases of investments	-	(3,082)
Net cash used in investing activities	(41,287)	(13,804)
Cash flows from financing activities		
Proceeds from the debt financing	28,000	3,100
Principal payments on outstanding debt	(12,318)	(12,698)
Net cash provided by (used in) financing activities	15,682	(9,598)
Net increase in cash and cash equivalents	667	2,040
Cash and cash equivalents at beginning of year	124,845	122,805
Cash and cash equivalents at end of year	\$ 125,512	\$ 124,845
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest, net of amount capitalized	\$ 11,483	\$ 11,869

The accompanying notes are an integral part of these consolidated financial statements.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Organization

General Health System (the Company) is a private, community-owned, nonprofit health care system located in Baton Rouge, Louisiana. The Company primarily provides health care services, including primary care, acute care, rehabilitative services, skilled nursing care, and psychiatric services, all of which are designed to meet the health care needs of the southeast Louisiana area.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its directly and indirectly owned entities supported by the Company. The Company provides substantially all of its health care services through Baton Rouge General Medical Center (BRGMC). All significant intercompany accounts and transactions have been eliminated in consolidation.

Income Tax Status

The Company and its Baton Rouge General Medical Center, General Health System Foundation and Behavioral Health, Inc. subsidiaries are not-for-profit organizations as described in Internal Revenue Code Section 501(c)(3) and are exempt from federal income taxation under Internal Revenue Code Section 501(a). All other corporations/LLCs are for-profit entities electing to be taxed under Internal Revenue Code Sub-Chapter C. Income tax expense for these entities is insignificant and is included in the Consolidated Statement of Operations under supplies and other expenses.

Revenue, Gains, and Losses

The Company's mission is to provide a broad range of innovative health care services delivered in a caring, consumer-oriented, and cost-effective manner through a quality-driven system. As such, activities related to this purpose are classified as revenue.

Revenue is generated from direct patient care, related support services, and other revenue related to the operation of the Company. In addition, earnings on interest-bearing deposits and marketable securities that are used in conjunction with providing health care services are reported as operating revenue. Other activities that result in gains or losses unrelated to the Company's primary mission are reported as non-operating gains or losses.

Net Patient Service Revenue and Related Receivables

The Company, through certain subsidiaries and affiliates, has entered into agreements with third-party payers, including government programs and managed health care plans, under which the Company is compensated for care based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Net Patient Service Revenue and Related Receivables (Continued)

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. The allowance for uncollectable accounts at September 30, 2012 and 2011 was approximately \$25,893,000 and \$19,977,000, respectively.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted as final settlements are determined. Actual results could differ from those estimates.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis. The program uses RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The Company will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Historically, the Company's experience with RAC and MIC assessments has been insignificant.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Cash Equivalents and Investments

Cash equivalents include investments in money market accounts and highly liquid investments with original maturities of three months or less when purchased, excluding amounts whose use is limited by Board designation, under trust agreements, or amounts pledged to third parties. Investments that can be readily traded are considered current assets.

Inventories

Inventories are valued at the latest invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

Property, Plant, and Equipment

All property, plant, and equipment acquisitions are recorded at cost, except for donated assets, which are recorded at fair market value on the date of donation. Any interest expense incurred on funds acquired to be used for the construction of assets is capitalized and included in construction in process during the construction phase. After construction is complete, the capitalized interest is transferred along with the other costs to the asset to be depreciated. Capital leases are recorded at the present value of future minimum lease payments, and the related amortization is included in depreciation and amortization expense in the consolidated statements of operations. Depreciation of plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets range from 3 to 40 years.

Assets Whose Use is Limited

Several funds were established concurrent with the issuance of tax-exempt debt. Trustees maintain the capital improvement and debt retirement funds, which include cash, investments, and accrued interest receivable, as special trust accounts for the benefit and security of the holders and owners of the debt. The limited use assets as of September 30, 2012 and 2011, are as follows:

	2012	2011
	<i>(In Thousands)</i>	
Capital improvement funds	\$ 30,940	\$ 4,956
Debt retirement funds	33,783	30,956
Other restricted assets	208	160
	<u>64,931</u>	<u>36,072</u>
Less current portion	<u>(4,523)</u>	<u>(4,654)</u>
	<u>\$ 60,408</u>	<u>\$ 31,418</u>

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific purpose. Temporarily restricted net assets are held primarily by General Health System Foundation and are available for the following purposes at September 30, 2012 and 2011:

	2012	2011
	<i>(In Thousands)</i>	
Restricted for a specific purpose	\$ 2,320	\$ 1,991
Endowments	1,427	1,305
Medical education	385	345
Employee assistance program	83	28
	<u>\$ 4,215</u>	<u>\$ 3,669</u>

Debt Issuance Costs and Bond Issue Premium

Deferred debt issuance costs and original issue premium on the Company's revenue bonds are being amortized over the terms of the bonds using the bonds outstanding method.

Self-Insurance Liabilities

Effective October 1, 2011, the System adopted ASU 2010-24, Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2012 and 2011 consolidated financial statements.

The Company is self-insured up to certain amounts for employee health, malpractice, general liability, and workers' compensation claims. The Company participates in the Louisiana Patients Compensation Fund, which limits the Company's exposure to malpractice losses. The Company limits exposure to general liability and workers' compensation claims through indemnity insurance purchased in the commercial market, which includes specific loss and aggregate limit thresholds.

The liabilities recorded represent management's best estimate of the ultimate unpaid cost of all reported and unreported claims incurred. The medical malpractice and workers' compensation claims estimates are based on actuarial projections of the historical loss development of claims incurred but not reported and case-basis estimates of claims reported prior to the end of the period. These estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The significant estimates affecting the Company's net patient service revenue and provision for bad debts relate to the allowance for uncollectible accounts, provision for contractual discounts, and provision for retroactive adjustments under third-party payer arrangements. Differences between original estimates and subsequent revisions are included in the statement of operations in the period in which the differences become known. These revisions increased net patient service revenue by approximately \$1,216,000 and \$337,000 in 2012 and 2011, respectively.

Fair Values

In January 2010, the FASB issued ASU 2010-06, which amends Fair Values (Topic 954), to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. The System adopted this guidance beginning October 1, 2011 and the adoption of ASU 2010-06 did not have a material impact on the 2012 and 2011 consolidated financial statements.

In April 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the 2012 and 2011 consolidated financial statements.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Fair Values (Continued)

Assets limited as to use: These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Company's revenue notes are based on current traded values. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Company's financial instruments at September 30, 2012 and 2011 are as follows (in thousands):

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 125,512	\$ 125,512	\$ 124,845	\$ 124,845
Assets limited as to use, current	\$ 4,523	\$ 4,523	\$ 4,654	\$ 4,654
Assets limited as to use, less current portion	\$ 60,408	\$ 60,408	\$ 31,418	\$ 31,418
Assets restricted by donors or grantors	\$ 4,215	\$ 4,215	\$ 3,669	\$ 3,669
Accounts payable and accrued expenses	\$ 38,034	\$ 38,034	\$ 33,456	\$ 33,456
Estimated third-party payor settlements	\$ 2,172	\$ 2,172	\$ 815	\$ 815
Long-term debt	\$ 243,966	\$ 246,325	\$ 228,674	\$ 233,830

Advertising

The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ending September 30, 2012 and 2011, were approximately \$918,000 and \$886,000, respectively.

Reclassifications

Certain reclassifications have been made to the prior year balances in order to comply with current year presentation.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 2. Community Benefits - Unaudited

The Company provides healthcare services to patients who are economically disadvantaged and medically underserved. These patients generally cannot afford health care because of either inadequate resources or they are uninsured.

See Note 3 for a discussion of the Company's charity care.

Beginning in the late 1980s Baton Rouge General (BRG) recognized the need for a proactive and aggressive approach to the problems of crime and decay in the Mid City neighborhoods surrounding its flagship hospital, Baton Rouge General Medical Center – Mid City. As a result, General Health System helped to establish the Mid City Redevelopment Alliance (MCRA), a separate not-for-profit 501(c) 3 organization with a sole mission of revitalization and renewal of the heart of Baton Rouge. MCRA is focused on economic development, home ownership and community vitality in the Mid City area. This initiative has increased merchants in the area by over 150, has repaired more than 250 houses and businesses, and has increased home ownership in the area to 40%. General Health System continues to provide funding to support MCRA's various community programs to improve the quality of life in the central urban core of Baton Rouge. In 2012, MCRA was no longer supported by the Hospital and is therefore not included in the 2012 consolidated financial statements. See Note 18.

The Company also recognizes the critical role of education in creating a more positive future for individuals. BRGMC operates the Baton Rouge General Medical Center School of Nursing and the School of Radiologic Technology and provides trained healthcare professionals to the Baton Rouge community. In response to the community need for registered nurses, BRGMC has increased the class size of its School of Nursing.

In addition, BRGMC is a Council of Teaching Hospital accredited community-based teaching hospital and an accredited residency program in family medicine and internal medicine. This commitment to graduate medical education (GME) is important to both Baton Rouge and the State of Louisiana. BRGMC has been active in GME for many years, working with the Louisiana State University School of Medicine (LSU) and the Earl K. Long Memorial Hospital (EKL) to enhance the quality of healthcare through medical education programs. BRGMC, LSU, and EKL have created joint residency programs in internal medicine, emergency medicine, pediatrics, and general surgery.

BRGMC is also a satellite training campus for Tulane University medical students and is the first Tulane University School of Medicine satellite training campus outside of New Orleans. Officially titled the Baton Rouge LEAD (Leadership, Education, Advocacy, and Discovery) Academy, the program is based in BRGMC's Mid City campus. In the program, Tulane medical students spend their third and fourth year clinical rotations in Baton Rouge. BRGMC physicians serve as the students' teachers and mentors. Since the program was established in May of 2010, nine medical students have graduated from the program and the upcoming third and fourth year classes of medical students have grown.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 2. Community Benefits - Unaudited (Continued)

Another unique program to Baton Rouge General is its Burn Center, recognized by the American Burn Association as the only burn center in southern Louisiana and, therefore, BRGMC assumes the healthcare responsibility for patients from an area far exceeding the standard service area. The Burn Center's comprehensive range of services includes education and prevention programs for the patient, family, and community, with specific programs for work-related burn prevention and treatment. Burn treatment procedures use a team approach to care that involves physicians, nurses, occupational and physical therapists, clinical dietitians, respiratory therapists, and social and pastoral care. The "Burn Camp" and the "Recovering Burn Support Group" are two examples of post-acute-care programs developed by the Company to meet the rehabilitative and psychosocial needs of this unique patient population.

In addition, the Company, through BRGMC, also provides many free health screenings, health fairs and programs encouraging community wellness, including:

- Free resources and support groups for cancer patients, including breast cancer, lymphedema, pancreatic cancer, and prostate cancer.
- Each year, Baton Rouge General provides free community health screenings to aid in early detection. In 2012, the Company provided two free skin cancer screenings and screened a total of 185 participants.
- BRGMC is a corporate sponsor of the American Cancer Society Relay for Life, Susan G. Komen Race for the Cure, American Heart Association Heart Walk and the Colon Cancer Coalition Get Your Rear in Gear race.
- BRGMC also supports Cancer Services of Greater Baton Rouge, a community based agency that provides financial, emotional, educational support for cancer patients and their families. In 2012, BRGMC was a corporate sponsor and participated in the organization's Capital Chef Showcase, a fundraising event that supports programs and services for children and adults in Baton Rouge's 10 parish area dealing with cancer.
- Through a specialized Healthy Heart Club, a cardiac reconditioning program, BRGMC offers an ongoing maintenance program in which the general public can exercise in our gym under the supervision of certified therapists and nutritionists.
- BRGMC provided flu shots for more than 90 senior members of the community at a local assisted living facility.
- BRGMC provides tours of our birth center and birth and baby classes to expectant parents that include childbirth preparation, breastfeeding basics, baby care basics, and CPR for friends and family.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 2. Community Benefits - Unaudited (Continued)

- BRGMC's Womack Heart Center and Pennington Cancer Center offers members of the community a free, seven-week, comprehensive Smoking Cessation Program several times a year to help aid smokers quit, and to address real issues surrounding the lifestyle of a smoker.
- BRGMC offers free monthly Surgical Weight Loss Seminars to members of the community interested in learning more about obesity and options for medically managed weight loss, including surgery. In 2012, BRGMC began offering this seminar information through online educational videos to provide community members a virtual option to learn about obesity and surgical weight loss options.
- BRGMC hosts free community events to promote breast health and breast cancer awareness and offers free resources and support groups to breast cancer patients and survivors. BRGMC hosted "Tag You're It," a free breast cancer awareness seminar for the community, which also offered individuals in the community a free health tool that provided text message reminders about annual breast cancer screenings and encouraged "tagging" others to sign up for the text reminders.
- BRGMC also served as the hosting facility for an Immune Deficiency Foundation Patient Education Meeting for community members living with immune deficiency disorders.
- BRGMC offers Healthy Heartbeats, an education program for families with children ages 5 to 12 years old, focusing on the importance of living fit and wholesome lives through exercise, nutrition, and self-body image.
- Baton Rouge General offers preoperative classes, including classes on joint replacement and spine surgery, to members of the community that are designed to help ease fear and anxiety related to having a surgical procedure and to educate them on what to expect during and after surgery.
- BRGMC participated in Baton Rouge's Life After 50 Expo event for senior members of the community, providing information on senior health programs and resources, as well as offering free blood pressure screenings to seniors.
- BRGMC participated as a corporate sponsor of the American Heart Association's Go Red for Women Luncheon and provided free blood pressure and Body Mass Index (BMI) screenings.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 3. Third-Party Reimbursement

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from established rates. The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Company's revenue. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Company is paid for inpatient and outpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Final settlement is determined after submission of the Company's annual cost reports and audits thereof by the Medicare fiscal intermediary.

The Company's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009.

Medicaid - Inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Company is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicaid fiscal intermediary.

The Company's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2006.

During the years ended September 30, 2012 and 2011, approximately 42% and 44%, respectively, of consolidated net patient service revenue was derived from Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Company has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates-per-discharge, discounts from established charges and prospectively determined daily rates. The Company provides healthcare services to patients who are economically disadvantaged and medically underserved. These patients generally cannot afford health care because of either inadequate resources or they are uninsured.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 3. Third-Party Reimbursement (Continued)

For patients who meet certain criteria under the Company's charity care policy, care is provided without charge or at amounts that are less than established rates. Benefits to the indigent also include charges foregone and costs in excess of government payments for services provided to Medicaid beneficiaries. Technological advances offered at Baton Rouge General Medical Center (BRGMC) for many patient care services have increased both the options and the cost of "appropriate" care.

The Company also commits significant time and resources to others who may not qualify as indigent, but who still require special services and support. These benefits include charges foregone and costs in excess of government payments for care provided to Medicare beneficiaries.

Effective October 1, 2011, the System adopted ASU 2010-23, Health Care Entities (Topic 954): Measuring Charity Care for Disclosure, which requires that costs be used as the measurement basis of charity care disclosures and that cost be identified as the direct and indirect cost of providing the charity care. The adoption of ASU 2010-23 resulted in additional disclosures included below.

A summary of charges foregone (representing charges in excess of payments) and estimated costs in excess of payments related to community benefits provided during the years ended September 30, 2012 and 2011, is as follows:

	2012		2011	
	Charges Foregone	Estimated Costs In Excess of Payments	Charges Foregone	Estimated Costs In Excess of Payments
<i>(In Thousands)</i>				
Benefits for the indigent				
Charity care	\$ 28,228	\$ 11,291	\$ 25,980	\$ 10,392
Medicaid program services	106,563	-	102,931	-
	<u>134,791</u>	<u>11,291</u>	<u>128,911</u>	<u>10,392</u>
Other community benefits				
Medicare program services	148,463	-	137,630	-
Other community benefits	-	709	-	964
	<u>148,463</u>	<u>709</u>	<u>137,630</u>	<u>964</u>
Total quantifiable benefits	<u>\$ 283,254</u>	<u>\$ 12,000</u>	<u>\$ 266,541</u>	<u>\$ 11,356</u>

The System estimates its cost of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to gross uncompensated revenue associated with providing care to charity patients.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 4. Investments

The Company's investments at September 30, 2012 and 2011 were as follows:

	2012	2011
	<i>(In Thousands)</i>	
Assets whose use is limited		
Cash and cash equivalents	\$ 35,618	\$ 10,425
Certificate of deposits	160	160
U.S. government and government agency obligations and mutual funds	29,153	25,487
	<u>\$ 64,931</u>	<u>\$ 36,072</u>

See Note 1, Significant Accounting Policies, for further information about Assets whose use is limited.

Fair value measurements are based on a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis at September 30, 2012 are summarized below (in thousands) and are included on the Consolidated Balance Sheets as Assets Whose Use is Limited and Assets Restricted by Donors or Grantors for Specific Purposes:

Assets	Level 1	Level 2	Level 3	Net Balance
Corporate Bonds	\$ 15,694	\$ -	\$ -	\$ 15,694
Government Securities	13,459	-	-	13,459
Money Market Deposits	39,833	-	-	39,833
Certificates of Deposit	160	-	-	160
Total	\$ 69,146	\$ -	\$ -	\$ 69,146

Assets measured at fair value on a recurring basis at September 30, 2011 are summarized below (in thousands) and are included on the Consolidated Balance Sheets as Assets Whose Use is Limited and Assets Restricted by Donors or Grantors for Specific Purposes:

Assets	Level 1	Level 2	Level 3	Net Balance
Corporate Bonds	\$ 15,694	\$ -	\$ -	\$ 15,694
Government Securities	9,792	-	-	9,792
Money Market Deposits	14,095	-	-	14,095
Certificates of Deposit	160	-	-	160
Total	\$ 39,741	\$ -	\$ -	\$ 39,741

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2012 and 2011.

- Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual Funds: Valued at the net asset value (NAV) of shares held at year end.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

The following schedule summarizes the investment income in the consolidated statements of operations for the years ended September 30, 2012 and 2011:

	2012	2011
	(In Thousands)	
Dividends and interest	\$ 2,602	\$ 2,175
Net realized losses	(26)	(21)
Net unrealized gains (losses)	938	(127)
Investment management fees	(88)	(68)
Total investment income	<u>\$ 3,426</u>	<u>\$ 1,959</u>

Note 5. Investment in Subsidiary

On December 23, 2009, the Company purchased a 45% interest in Baton Rouge Rehabilitation Hospital, L.L.C. (BRRH) and Baton Rouge Rehabilitation Development, L.L.C. (BRRD) for a purchase price of \$4,380,000. The Company financed the purchase by entering into a \$4,800,000 note payable with a maturity date of March 28, 2015, which is included in the schedule of maturities within Note 7. The remaining proceeds of the note may be used as additional capital contributions as required by the operating agreement. Baton Rouge Rehabilitation Hospital is an 80 bed, Medicare certified inpatient rehabilitation hospital that offers a variety of rehabilitation services to Baton Rouge and the surrounding area. The investments in BRRH and BRRD are reported on the equity method of accounting and are included in the accompanying Consolidated Balance Sheets as Other Assets.

On September 30, 2011, the Company entered into a joint venture with Baton Rouge Radiology Group. The joint venture operates as Baton Rouge Radiology Imaging Center, LLC (BRRIC). The Company entered into a contribution agreement whereby it contributed approximately \$3,100,000 to BRRIC for a 50% membership interest. The Company financed the contribution by entering into a \$3,100,000 note payable with a maturity date of January 15, 2013, which is included in the schedule of maturities within Note 7. BRRIC will focus in the area of radiology and supporting imaging services. The investment in BRRIC is reported on the equity method of accounting and is included in the accompanying Consolidated Balance Sheets as Other Assets.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 5. Investment in Subsidiary (Continued)

These investments are summarized as follows:

	2012	2011
	(In Thousands)	
Rehabilitation Hospital		
Beginning balance	\$ 1,397	\$ 1,577
Additional costs	-	7
Contributions	-	-
Distributions	(607)	(1,125)
Net income (45%)	1,103	938
	<u>\$ 1,893</u>	<u>\$ 1,397</u>
	2012	2011
	(In Thousands)	
Rehabilitation Development		
Beginning balance	\$ 2,827	\$ 2,793
Contributions	-	-
Distributions	(608)	(473)
Net income (45%)	527	507
	<u>\$ 2,746</u>	<u>\$ 2,827</u>
	2012	2011
	(In Thousands)	
BR Radiology Imaging Centers		
Beginning balance	\$ 3,082	\$ -
Additional costs	26	-
Contributions	-	3,082
Distributions	(330)	-
Net income (50%)	885	-
	<u>\$ 3,663</u>	<u>\$ 3,082</u>
Total equity investments	<u>\$ 8,302</u>	<u>\$ 7,306</u>

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 5. Investment in Subsidiary (Continued)

Summarized financial information for entities carried under the equity method are as follows for September 30, 2012:

	BRRH	BRRD	BRRIC
	<i>(In Thousands)</i>		
Total Assets	\$ 4,679	\$ 6,731	\$ 4,974
Total Liabilities	\$ 767	\$ 349	\$ 617
Equity	\$ 3,912	\$ 6,382	\$ 4,357
Net Income	\$ 2,452	\$ 1,171	\$ 1,770

Summarized financial information for entities carried under the equity method are as follows for September 30, 2011:

	BRRH	BRRD	BRRIC
	<i>(In Thousands)</i>		
Total Assets	\$ 3,826	\$ 6,396	\$ 75
Total Liabilities	\$ 1,015	\$ 135	\$ 75
Equity	\$ 2,811	\$ 6,261	\$ -
Net Income	\$ 2,085	\$ 1,127	\$ -

At September 30, 2012 and 2011, the Company had a receivable of approximately \$644,000 and \$715,000, respectively due from Baton Rouge Rehabilitation Hospital for various operating and payroll expenses, which is reported in the accompanying Consolidated Balance Sheets as Prepaid Expenses and Other Assets.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 6. Property, Plant and Equipment

Property and equipment and accumulated depreciation at September 30, 2012 and 2011, are as follows:

	2012	2011
	<i>(In Thousands)</i>	
Land and land improvements	\$ 32,634	\$ 32,735
Buildings and fixed equipment	240,187	239,945
Equipment	135,578	129,927
Construction in progress	7,061	1,392
	<u>415,460</u>	<u>403,999</u>
Accumulated depreciation	<u>(225,306)</u>	<u>(209,979)</u>
	<u>\$ 190,154</u>	<u>\$ 194,020</u>

Capitalized interest of \$899,140 and \$-0- is included in construction in process at September 30, 2012 and 2011, respectively.

Depreciation expense was approximately \$15,750,000 and \$16,181,000, for the years ended September 30, 2012 and 2011, respectively.

Note 7. Long-Term Debt

On December 8, 2004, the Louisiana Public Facilities Authority issued the Series 2004 Bonds, for which BRGMC is obligated. The proceeds of the Series 2004 Bonds were used in refunding previously issued bond series, together with providing funds for (a) funding a \$98.1 million capital expansion of the Bluebonnet campus, including capitalized interest during the construction period, (b) funding a debt service reserve fund, and (c) paying certain costs incurred in connection with the issuance of the bonds.

On October 1, 2011, the Louisiana Local Government Environmental Facilities and Community Development Authority issued \$28,000,000 in Gulf Opportunity Zone Revenue Bonds, for which GHS is obligated. The proceeds of the Series 2011 Bonds are being used to construct a 106,000 square foot medical office building on the Bluebonnet campus.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

Long-term debt at September 30, 2012 is summarized as follows (in thousands):

	2012	2011
Mortgage Revenue Bonds, FHA Insured Series 2004; \$30,450 of serial bonds bearing interest rates of 4% to 5%, and maturing through 2018; \$42,345 of 5.25% and \$107,735 of 5.25% term bonds maturing in 2024 and 2033, respectively; with optional or mandatory redemption requirements beginning in 2014; collateralized by a pledge of future revenue of BRGMC and secured by (a) mortgage granting to the Bank of New York, as mortgagee, a first lien on certain of BRGMC's real property and (b) a security agreement granting a security interest on certain of BRGMC's personal property.	\$ 180,530	\$ 185,231
Series 2011, LA Local Government Environmental Facilities and Community Development Authority-Gulf Opportunity Zone Revenue Bonds issued on behalf of General Health System (Obligor). \$28,000 of serial bonds, variable interest. Interest payments only until October 2013. Monthly principal and interest payments of \$250 through maturity at January 2023. Secured by a mortgage on medical office building which was constructed with the proceeds of issue.	28,000	-
Bonds and notes payable to others	30,865	38,482
Total	239,395	223,713
Plus unamortized bond premium Series 2004	4,571	4,961
Less principal payments due within one year	(21,709)	(17,853)
Noncurrent portion	\$ 222,257	\$ 210,821

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

The scheduled maturities of long-term debt for the next five years ending September 30th are as follows: (in thousands)

2013	\$ 21,709
2014	10,905
2015	9,300
2016	9,392
2017	9,654
Thereafter	<u>178,435</u>
Total	<u>\$ 239,395</u>

Note 8. Employee Benefit Plans

Substantially all employees of the Company are eligible to participate in the General Health System Retirement Plus Plan (the GHSRP Plan) provided they meet certain service and eligibility requirements. Newly hired, eligible employees are automatically enrolled in the GHSRP Plan within 30 days after their hire date. If employees do not specifically elect an alternative deferral amount (including zero), then as soon as administratively feasible after the end of that 30-day period, 2% of their compensation will automatically be withheld from each paycheck and deposited into a plan account in their name as a salary deferral. The GHSRP Plan also allows for voluntary contributions by employees up to 30% of their annual compensation, subject to certain limits. The Company matches 50% of the employee's deferral up to 3% of annual compensation, to participants who are at least 21 years of age and have completed one year of service, of 1,000 hours worked. A participant is 100% vested in the Company match after completing three years of credited service. Company matching contributions to the GHSRP Plan totaled approximately \$2,140,000 and \$1,671,000 for the years ended September 30, 2012 and 2011, respectively.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 8. Employee Benefit Plans (Continued)

The Company also makes a Company-fixed contribution of 1% of each eligible employee's compensation. In order to be eligible the employee must be employed by the Company on the last day of the Plan year. The Company-fixed contribution totaled \$5,626 and \$8,000 for the years ended September 30, 2012 and 2011, respectively.

The Company maintains sponsorship of a noncontributory, defined benefit plan covering employees who were eligible at the curtailment date of January 1, 2000. Only participants who either attained age 55 and have 5 years of credited service as of December 31, 1999, or met the "Rule of 70" as of that date continued to earn credited service.

A participant is considered to have met the "Rule of 70" on the date which the sum of their age and years of vesting service is equal to or greater than 70. Further, the Plan was effectively "frozen" January 1, 2011. As a result, participants will not receive credit for any additional Credited Service for any period after December 31, 2010. Only Hours of Service completed on or before December 31, 2010, will be considered in calculating the amount of Credited Service earned.

A summary of the defined benefit plan funding status and assumptions is as follows for the years ended September 30, 2012 and 2011:

	2012	2011
	(In Thousands)	
Projected benefit obligation at year-end	\$ 56,140	\$ 55,404
Fair value of plan assets at year-end	41,332	41,057
Underfunded status	<u>\$ (14,808)</u>	<u>\$ (14,347)</u>

The Company has reflected its under-funded status at September 30, 2012 and 2011 as a component of other non-current liabilities on the Consolidated Balance Sheet.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 8. Employee Benefit Plans (Continued)

The summary of the defined benefit plan expected and actual expenses, benefits paid and Company contributions for fiscal years 2013 and 2012 are as follows:

	Expected 2013	Actual 2012
	<i>(In Thousands)</i>	
Service cost	\$ 100	\$ 100
Interest cost	2,186	2,693
Expected return on assets	(2,862)	(2,872)
Net cost	(576)	(79)
Net prior service cost amortization	26	26
Net loss amortization	1,105	968
Net amortization	1,131	994
Net periodic benefit cost	\$ 555	\$ 915
Employer contributions	\$ 1,800	\$ 4,200
Benefits paid from plan assets	\$ 2,997	\$ 2,429

The plan had prior service cost of \$253,000 and \$279,000 and net accumulated losses of \$32,021,000 and \$30,744,000 at September 30, 2012 and 2011, respectively; with an accumulated other comprehensive income adjustment of approximately \$32,274,000 and \$31,023,000, at September 30, 2012 and 2011, respectively.

Significant defined benefit plan assumptions used in actuarial calculations, which are based on historical performances and expected market and economic conditions, are as follows:

	2012	2011
Weighted-average assumptions:		
Discount rate	4.00%	5.00%
Expected return on plan assets	7.00%	7.00%
Expected compensation increase	N/A	N/A

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 8. Employee Benefit Plans (Continued)

The composition of plan assets at September 30, 2012 and 2011 is as follows:

	2012	2011
Asset category:		
Equity securities	27.30%	22.30%
Debt securities	70.70%	76.10%
Other	2.00%	1.60%
	<u>100.00%</u>	<u>100.00%</u>

A summary of the defined benefit plan asset allocation strategy is as follows for the year ended September 30, 2012.

	Target		
	Minimum	Average	Maximum
Asset Class:			
Domestic large capitalization stocks	10%	30%	45%
Small/Mid capitalization stocks	0%	5%	10%
International equity manager(s)	5%	15%	40%
Convertible securities	0%	0%	15%
Total equity	<u>15%</u>	<u>50%</u>	<u>65%</u>
Investment grade fixed income	28%	40%	85%
Cash and cash equivalents	0%	—	50%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal year ending September 30, 2013	\$ 2,865,737
Fiscal year ending September 30, 2014	\$ 2,918,074
Fiscal year ending September 30, 2015	\$ 2,986,723
Fiscal year ending September 30, 2016	\$ 3,042,334
Fiscal year ending September 30, 2017	\$ 3,185,014
Fiscal year ending September 30, 2018 through September 30, 2022	\$ 17,288,563

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 8. Employee Benefit Plans (Continued)

Pension Loss Amortization and Pension Settlements

The Company's qualified pension plan became underfunded in 2002 primarily as a result of the weak stock market in 2001 and 2002 and subsequent declines in interest rates. This produced actuarial losses that are amortized to expense in subsequent years. Non-cash pension loss amortization was \$968,000 and \$935,000 in fiscal years ended September 30, 2012 and 2011, respectively.

A pension settlement charge is recorded when the total lump sum payments for a year exceed total service and interest costs recognized for that year. The settlement charge recognizes a pro-rata portion of the unrecognized actuarial net losses. During fiscal year 2012, over 475 plan participants received lump sums totaling \$4.4 million. This triggered settlement accounting and resulted in a net periodic benefit cost of \$2.5 million, which is included in Salaries, wages, and benefits on the consolidated financial statements. These payments reduced the plan liability by over \$5 million, resulting in a savings of \$600,000 in the pension liability. This is a result of the lump sum interest rates being higher than the accounting disclosure rate of 4.00%.

The Company continues to review the need for lump sum distributions throughout the 2013 fiscal year.

Note 9. Contingencies and Risk Management

Malpractice claims that fall within the Company's adopted policy of self-insurance (see Note 1) have been asserted against the Company by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial.

The accrual for malpractice and general liability self-insurance reserves totaled approximately \$3,958,000 and \$4,607,000, at September 30, 2012 and 2011, respectively, of which \$750,000 is included in current liabilities at each of those dates. Based on management's best knowledge and belief, it is the opinion of management that the ultimate resolution of malpractice claims and incidents will not have a material effect on the Company's consolidated financial statements.

Note 10. Insurance Programs

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 10. Insurance Programs (Continued)

The Hospital is also self-insured for medical claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying financial statements.

The claims liabilities at September 30, 2012 and 2011 are reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years are reflected below (in thousands):

	2012	2011
Claims Liability, Beginning of Year	\$ 2,800	\$ 1,560
Current Year Claims and Changes in Estimates	13,228	12,137
Current Year Claims Payments	(13,028)	(10,897)
Claims Liability, End of Year	<u>\$ 3,000</u>	<u>\$ 2,800</u>

Note 11. Leases and Other Commitments

The Company is required by the State of Louisiana Department of Employment and Training, Office of Workers' Compensation, to maintain a cash reserve for the self-insured workers' compensation plan. The Company acquired a standby letter of credit to satisfy this requirement with an available balance of \$1,400,000 at both September 30, 2012 and 2011.

The Company also leases medical and office equipment and office buildings under several operating leases, which expire in various years through 2019. Rental expense under operating leases totaled approximately \$1,880,000 and \$1,329,000, for the years ended September 30, 2012 and 2011, respectively.

Future minimum payments under all non-cancelable operating leases with original or remaining terms of one year or more at September 30, 2012, are as follows: (in thousands)

2013	\$ 978
2014	855
2015	729
2016	672
2017	229
Thereafter	332
Total Minimum Rental Commitments	<u>\$ 3,795</u>

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 11. Leases and Other Commitments (Continued)

In July of 2012 the Company entered into a joint venture agreement with two independent entities to own and operate Radiation Oncology Center – Zachary (the Center). The Company will be a 50% member of the Center. Initial capital contribution amounts have not been finalized as of the date of this report, but will be made based on each member's interest in the Center. The initial contributions are expected to be made during the summer of 2013 when construction of the Center begins.

Note 12. Business and Credit Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of unsecured accounts receivable and interest-bearing depository accounts in excess of federally insured limits. The Company has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

The Company grants credit to patients, substantially all of whom are regional residents, and generally does not require collateral or other security in extending this credit; however, the Company routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and commercial insurance policies).

The mix of receivables due from patients and third-party payors at September 30, 2012 and 2011 is as follows:

	2012	2011
Medicare	22 %	25 %
Medicaid	21	17
Commercial	54	56
Private Pay	3	2
	<u>100 %</u>	<u>100 %</u>

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 13. Other Operating Revenue

Other operating revenue recognized during the years ended September 30, 2012 and 2011 consists of the following (in thousands):

	2012	2011
Management fees	\$ 8,200	\$ 6,011
Cafeteria revenues	2,841	2,665
Contributions	2,377	2,570
Rent revenues	4,728	4,468
Cooperative Endeavor Agreement revenues	2,697	7,910
EHR revenues	1,964	-
Upper Payment Limit revenues	236	355
Other	16,717	12,383
	<u>\$ 39,760</u>	<u>\$ 36,362</u>

Cooperative Endeavor Agreements

The Hospital and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population. The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). As of September 30, 2012 and 2011, Medicaid UPL payments received by the Hospital were \$235,903 and \$355,421 recorded in Medicaid net revenue. Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. As a member of the collaborative, the Company has received payments of approximately \$2,697,000 and \$7,910,000 as of September 30, 2012 and 2011, respectively, which are recognized in other revenue on the consolidated statements of operations.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Electronic Health Records (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningful use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the Company when received.

For the year ended September 30, 2012 the Company recognized \$1,964,000 of revenue related to Medicaid incentive payments for EHR. This amount was recognized in full as of the date received and is included within other operating revenues on the statement of operations. No EHR incentive payments were recognized in the year ended September 30, 2011.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 14. Baton Rouge General Physicians Loss Recognition

In February 2012, it was determined that certain physician clinic losses held as receivables would be unrecoverable in future periods. As such, those losses were recognized as an expense on the statement of operations in the amount of \$1,853,000. Of this amount, \$1,329,000 was related to services provided in prior periods. Current policy is to recognize all physician losses in the month incurred.

Note 15. Functional Expenses

The Company provides general health care services to residents within its geographic location. Expenses related to providing these services were as follows:

	2012	2011
	<i>(In Thousands)</i>	
Health care services	\$ 267,768	\$ 247,099
General and administrative	120,252	109,176
	<u>\$ 388,020</u>	<u>\$ 356,275</u>

Note 16. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors (in thousands).

	2012	2011
Education	\$ 37	\$ 26
Employee assistance	13	11
Endowments	-	3
Equipment	575	841
Nursing	6	4
Patient care	73	69
Scholarships	4	3
Total program expenses	<u>708</u>	<u>957</u>
 (Less) program expenses unrestricted	 (373)	 (364)
Total restricted assets released	<u>\$ 335</u>	<u>\$ 593</u>

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 17. Sale of PHNS Stock

On October 29, 2010, the Company sold its ownership of 317,819 shares of Class B common stock investment in PHNS, Inc. at \$5.637 per share for a total sales price of \$1,786,686. The carrying value of the investment at the time of sale was \$602,357, resulting in a total gain on sale of \$1,184,328. This gain is reflected as other revenue in the Consolidated Statement of Operations for the year ended September 30, 2011.

Note 18. Mid City Redevelopment Alliance

Mid City Redevelopment Alliance (MCRA) was established 20 years ago as an affiliate organization of General Health System. The Company supported MCRA through contributions, which were shown within supplies and other expenses on the statement of operations. In October 2011, MCRA established itself as an independent nonprofit organization separate from GHS. As of the year ended September 30, 2011, MCRA had \$845,000 in net assets reported in the consolidated financial statements of General Health System. In the year ended September 30, 2012, the net assets of MCRA are removed from consolidated reporting.

Note 19. Accounting for Uncertainty in Taxes

The Company follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. The Company recognizes a threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company's tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2009 through 2011. There are currently no returns under examination. Management evaluated the Company's tax positions and considered that the Company had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance.

GENERAL HEALTH SYSTEM

Notes to Consolidated Financial Statements

Note 20. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 28, 2012, and determined that the following event requires disclosure.

On December 4, 2012, the Louisiana Public Facilities Authority, ("Series 2004 Bonds"), were defeased and Prudential Huntoon Paige Associates, Ltd, ("Prudential") issued new Government National Mortgage Association ("GNMA") taxable bonds. The transaction was issued in the principal amount of \$175,983,167 and resulted in a reduction in the interest rate of the mortgage loan to a fixed rate of 2.98% over the remaining term. The proceeds of the bonds will be used for the purpose of advance refunding and defeasance of the nontaxable Series 2004 Bonds which have interest rates ranging from 4.00% to 5.25%. Approximately \$170,000,000 of the proceeds from the sale of the GNMA Security were deposited into an Escrow Fund. In addition, approximately \$26,900,000 of Assets whose use is limited as presented on the September 30, 2012 balance sheet were subsequently deposited into the Escrow Fund. These funds were used to purchase Defeasance Obligations. The Escrow Agent will collect the principal and interest on the Defeasance Obligations which will be used for the payment of principal and interest on the Series 2004 Defeased Bonds becoming due on January 1, 2013; July 1, 2013; January 1, 2014; and July 1, 2014; and for the entire outstanding principal amount of the Series 2004 Bonds at a price equal to 100% of such principal amount, plus accrued interest on July 1, 2014.

Supplemental Information

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30, 2012
(in thousands)

	General Health System	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Gulf South Health Plans, Inc.	Behavioral Health, Inc., HHS, Inc. & GLC, Inc.	General Health System Consolidated
ASSETS									
Current assets									
Cash and cash equivalents	\$ 73,176	\$ 50,135	\$ -	\$ 756	\$ -	\$ 1,445	\$ -	\$ -	\$ 125,512
Patient accounts receivable, net	-	38,121	-	-	-	1,081	-	(77)	37,125
Assets whose use is limited	-	4,523	-	-	-	-	-	-	4,523
Inventories	-	5,831	-	-	-	43	-	-	5,874
Prepaid expenses and other assets	3,275	2,875	-	8	-	452	-	-	6,610
Total current assets	76,451	96,465	-	764	-	3,021	-	(77)	179,644
Assets whose use is limited, less current portion	28,822	33,586	-	-	-	-	-	-	60,408
Assets restricted by donors or grantors for specific purposes	-	-	-	4,215	-	-	-	-	4,215
Other assets	5,276	3,883	-	-	(15)	-	-	8,303	12,733
Property and equipment, net	48,156	140,605	88	-	-	305	-	-	190,154
Total assets	\$ 157,705	\$ 277,659	\$ 88	\$ 4,979	\$ (15)	\$ 3,326	\$ -	\$ 8,228	\$ 447,164
LIABILITIES AND NET ASSETS									
Current liabilities									
Trade accounts payable	\$ 7,781	\$ 12,394	\$ 10	\$ 7	\$ -	\$ (171)	\$ 39	\$ -	\$ 20,060
Accrued expenses	3,607	10,541	-	179	-	3,131	74	442	17,974
Amounts due to contractual third-party payors	-	2,172	-	-	-	-	-	-	2,172
Current portion of self-insurance reserves	8,982	-	-	-	-	-	-	-	9,962
Current portion of long-term debt	14,114	7,585	-	-	-	-	-	-	21,709
Total current liabilities	35,464	32,702	10,00	186	-	2,860	113	442	71,877
Self-insurance reserves, less current portion	3,208	-	-	-	-	-	-	-	3,208
Long-term debt, less current portion	41,540	180,717	-	-	-	-	-	-	222,257
Other non-current liabilities	14,808	-	-	80	-	-	-	-	14,888
Intercompany accounts	(13,909)	(1,825)	8,803	-	292	14,210	(13)	(7,559)	-
Total liabilities	81,111	211,684	8,813	266	292	17,170	100	(7,116)	312,250
Net Assets									
Unrestricted	76,594	65,965	(8,725)	498	(307)	(13,844)	(100)	15,342	130,709
Temporarily restricted	-	-	-	4,215	-	-	-	-	4,215
Total net assets	76,594	65,965	(8,725)	4,713	(307)	(13,844)	(100)	15,342	134,924
Total liabilities and net assets	\$ 157,705	\$ 277,659	\$ 88	\$ 4,979	\$ (15)	\$ 3,326	\$ -	\$ 8,228	\$ 447,164

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30, 2011
(in thousands)

ASSETS

Current assets
Cash and cash equivalents
Patient accounts receivable, net
Assets whose use is limited
Inventories
Prepaid expenses and other assets
Total current assets

Assets whose use is limited, less current portion

Assets restricted by donors or grantors for specific purpose

Other assets

Property and equipment, net

Total assets

	General Health System	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	Mid City Redevelopment Alliance, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Gulf South Health Plans, Inc.	Behavioral Health, Inc., HHS, Inc., GLC, Inc.	General Health System Consolidated
\$	68,881	\$ 55,239	\$ -	\$ 354	\$ 472	\$ -	\$ -	\$ 44	\$ -	\$ 124,845
	-	28,228	-	-	-	-	2,606	-	(70)	31,782
	-	4,654	-	-	-	-	-	-	-	4,654
	-	7,888	-	-	-	-	43	-	-	8,042
	4,202	3,335	-	138	2	-	588	-	-	8,263
	72,883	100,463	-	492	474	-	3,290	44	(70)	177,865
	25	31,383	-	-	-	-	-	-	-	31,418
	-	-	-	-	3,669	-	-	-	-	3,669
	4,563	4,230	-	-	-	10	-	-	7,306	12,239
	46,622	146,622	88	477	1	-	210	-	-	194,020
\$	124,093	\$ 282,698	\$ 88	\$ 969	\$ 4,144	\$ 10	\$ 3,600	\$ 44	\$ 7,236	\$ 418,812

LIABILITIES AND NET ASSETS

Current liabilities
Trade accounts payable
Accrued expenses
Amounts due to contractual third-party payors
Current portion of self-insurance reserves
Current portion of long-term debt
Total current liabilities

Self-insurance reserves, less current portion

Long-term debt, less current portion

Other non-current liabilities

Intercompany accounts

Total liabilities

Net Assets
Unrestricted
Temporarily restricted
Total net assets

Total liabilities and net assets

\$	6,178	\$ 11,966	\$ 10	\$ 5	\$ (4)	\$ -	\$ 984	\$ 39	\$ -	\$ 19,188
	3,142	9,481	-	12	170	-	1,072	67	324	14,268
	-	815	-	-	-	-	-	-	-	815
	8,945	-	-	-	-	-	-	-	-	8,945
	9,388	8,378	-	107	-	-	-	-	-	17,853
	27,633	30,640	10	124	168	-	2,068	108	324	61,069
	3,857	-	-	-	-	-	-	-	-	3,857
	22,162	188,659	-	-	-	-	-	-	-	210,821
	14,348	-	-	-	111	-	-	-	-	14,459
	(17,817)	6,224	8,803	-	(3)	958	7,878	38	(6,078)	-
	50,183	226,523	8,813	124	274	958	9,942	144	(5,765)	290,206
	73,910	57,175	(8,725)	846	201	(948)	(8,442)	(100)	12,991	125,037
	-	-	-	-	3,669	-	-	-	-	3,669
	73,910	57,175	(8,725)	846	3,670	(948)	(6,442)	(100)	12,991	125,706
\$	124,093	\$ 282,698	\$ 88	\$ 969	\$ 4,144	\$ 10	\$ 3,600	\$ 44	\$ 7,236	\$ 418,812

See Independent Auditor's Report

(in thousands)

over expenses

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GENERAL HEALTH SYSTEM
Consolidating Statement of Operations
Year Ended September 30, 2011
(in thousands)

	Baton Rouge General Medical Center										
	Baton Rouge General Medical Center	Baton Rouge General Medical Center	Baton Rouge General Medical Center	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	Mid City Redevelopment Alliance, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Behavioral Health, Inc., HMS, Inc. & GLC, Inc.	Eliminations Consolidated
Unrestricted revenues, gains and other support											
Net patient service revenue	\$ -	\$ 118,908	\$ 178,547	\$ 297,455	\$ -	\$ -	\$ -	\$ -	\$ 28,553	\$ -	\$ -
Investment income	405	986	649	1,635	-	-	(82)	-	-	1	-
Other revenue	65,195	5,996	5,237	11,233	55	784	1,087	384	2,566	6,750	(51,692)
Net assets released from restrictions	-	-	-	-	-	-	593	-	-	-	-
Total revenues, gains and other support	65,600	125,890	184,433	310,323	55	784	1,598	384	31,119	6,751	(51,692)
											364,922
Expenses											
Salaries, wages, and benefits	24,995	56,291	59,814	116,105	-	245	384	-	23,759	5,259	-
Supplies and other expenses	26,957	64,698	88,647	153,345	55	130	1,122	-	8,987	47	(51,692)
Provision for bad debts	-	5,470	11,673	17,143	-	-	-	-	1,074	-	-
Depreciation and amortization	3,672	4,832	8,002	12,834	-	6	-	-	35	-	-
Interest expense	941	2,822	7,935	10,757	-	-	12	-	-	103	-
Total expenses	56,565	134,113	176,071	310,184	55	381	1,518	-	33,855	5,409	(51,692)
											356,275
Change in interest in Foundation	619	-	-	-	-	-	-	-	-	-	(619)
Nonoperating gain (loss)	1,323	561	279	840	-	-	-	-	-	-	-
Excess of revenues over expenses	\$ 10,977	\$ (7,662)	\$ 8,641	\$ 979	\$ -	\$ 403	\$ 80	\$ 384	\$ (2,736)	\$ 1,342	\$ (619)
											\$ 10,810

See Independent Auditor's Report



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**Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees
General Health System

We have audited the consolidated financial statements of General Health System as of and for the year ended September 30, 2012, and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether General Health System's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Company in a separate letter dated December 28, 2012.

This report is intended solely for the information and use of the Board of Trustees, management, Louisiana Department of Health and Human Services, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

December 28, 2012



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**Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133 and the Consolidated Audit Guide
for Audits of HUD Programs**

To the Board of Trustees
General Health System

Compliance

We have audited the compliance of General Health System with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement and the Consolidated Audit Guide for Audits of HUD Programs* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide), issued by the U.S. Department of Housing and Urban Development Office of the Inspector General. Those standards and OMB Circular A-133 and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.



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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report in internal control over compliance in accordance with OMB Circular A-133 and the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financials statements of General Health System as of and for the year ended September 30, 2012, and have issued our report thereon dated December 28, 2012. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, Louisiana Department of Health and Human Services, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

December 28, 2012

GENERAL HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Grantor/Program Title/ Pass-Through Grantor's Number	Federal CFDA Number	Contract Period	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Mortgage Insurance-Hospitals	14.128	10/01/11-09/30/12	\$ 180,530,000
U.S. Department of Education:			
Student Financial Aid Cluster			
Federal Pell Grant Program/E-P063P42691-92	84.063	07/01/11-06/30/12	52,156
		07/01/12-12/31/12	135,350
William D. Ford Federal Direct Loan Program	84.268	07/01/11-06/30/12	248,471
William D. Ford Federal Direct Loan Program		07/01/12-12/31/12	<u>429,250</u>
U.S. Department of Health and Human Services:			865,227
Health Resources and Services Administration			
Health Care and Other Facilities	93.887	10/01/11-09/30/12	198,000
U.S. Department of Homeland Security:			
Louisiana Governor's Office of Homeland Security			
Disaster Grants-Public Assistance	97.036	05/06/11-11/06/11	<u>14,195</u>
Total Expenditures of Federal Awards			<u><u>\$ 181,607,422</u></u>

GENERAL HEALTH SYSTEM
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Note 1. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

Complete Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. CFDA prefixes and other identifying numbers are presented for programs for which a complete CFDA number is not available.

Note 2. Disbursements Outstanding

The Company participates in student loan programs guaranteed by an agency of the U.S. government. The Company is involved in determining eligibility, while a financial institution is responsible for funding the loan.

All disbursements outstanding (approved but not paid) during the audit period have been included in expenditures on the Schedule of Expenditures of Federal Awards. Disbursements outstanding for the Federal Pell Grant Program were \$187,506 and for the William D. Ford Federal Direct Loan Program were \$677,721 at September 30, 2012.

Note 3. Mortgage Insurance

The Company participates in the Section 242 Program which is a loan guarantee by the Department of Housing and Urban Development (HUD). The objective of the program is to facilitate affordable financing of hospitals for the care and treatment of persons who are acutely ill or who otherwise require medical care and related services of the kind customarily furnished by hospitals. HUD insures lenders against a loss on mortgages. The loans may be used to finance construction, modernization, equipment, or refinancing of acute care hospitals. (See Note 4 for the use of bond proceeds).

Note 4. Insured Mortgage

On December 8, 2004, the Louisiana Public Facilities Authority (the Authority) issued the Series 2004 Bonds, for which Baton Rouge General Medical Center, the mortgaged entity, is obligated. The mortgaged entity's financial statements have been presented in the Consolidating Balance Sheet and Statement of Operation as Baton Rouge General Medical Center.

GENERAL HEALTH SYSTEM**Notes to Schedule of Expenditures of Federal Awards (Continued)****Year Ended September 30, 2012**

Note 4. Insured Mortgage (Continued)

Concurrently with the issuance of the Bonds, the Authority entered into a Loan Agreement related to the Bonds dated as of November 1, 2004, with Baton Rouge General Medical Center. Pursuant to this Loan Agreement, the Authority lent the proceeds of the Bonds to the mortgaged entity for the purpose of providing funds, together with other available funds for (a) refunding a \$98.1 million capital expansion of the Bluebonnet Campus including capitalized interest during the construction period, (b) funding a debt service reserve fund, (c) retiring previously issued bonds, and (d) pay certain costs incurred in connection with the issuance of the Bonds. To provide a source of repayment of such loan, the mortgage entity executed a Mortgage Note and Mortgage. Payments on the Series 2004 Note and the Mortgage, together with other available funds, will be required to be sufficient to pay the principal of, premium, if any, and interest on the Bonds as they become due. HUD, acting by and through FHA, insures the advances of funds secured by the Mortgage pursuant to Section 242 of Title II of the National Housing Act. The related bonds as of September 30, 2012 are summarized as follows (in thousands):

Mortgage Revenue Bonds, FHA Insured Series 2004; plus unamortized premium of \$4,571 and \$4,961 at September 30, 2012 and 2011, respectively; \$30,450 of serial bonds bearing interest rates of 4% to 5%, and maturing through 2018; \$42,345 of 5.25% and \$107,735 of 5.25% term bonds maturing in 2024 and 2033, respectively; with optional or mandatory redemption requirements beginning in 2014; collateralized by a pledge of future revenue of BRGMC and secured by (a) mortgage granting to the Bank of New York, as mortgagee, a first lien on certain of BRGMC's real property and (b) a security agreement granting a security interest on certain of BRGMC's personal property (fair value of \$188,955 and \$193,365, at September 30, 2012 and 2011), respectively.

\$ 185,101

Unamortized Premium

(4,571)

\$ 180,530

As mentioned above, proceeds from the Series 2004 Bonds were used to refund previous bond issuances that were obligations of the Hospital. Approximately, \$96,894,000 of the proceeds of the Bonds, together with other monies of the Hospital, was used to currently refund the Series 1989A Bonds, Series 1989B Bonds, Series 1992 Bonds and Series 1994 Bonds (the "Currently Refunded Bonds"), which were redeemed within ninety (90) days after the delivery of the Bonds.

A Mortgage Reserve Fund was established as a trust fund with a trustee. As of September 30, 2012, the fund had a balance of \$13,566,072, which is presented as a component of Assets Whose Use is Limited on the Consolidated Balance Sheet.

GENERAL HEALTH SYSTEM
Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? None Reported

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A -133 (section 510(a))? No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.128	Mortgage Insurance - Hospitals
84.063	Federal Pell Grant Program/E-P063P42691-92
84.268	William D. Ford Federal Direct Loan Program

Dollar threshold used to determine Type A programs: \$300,000

Auditee qualified as low-risk auditee? No

GENERAL HEALTH SYSTEM
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2012

Part II - Financial Statement Findings Section

None

Part III - Federal Award Findings and Questioned Costs Section

None

GENERAL HEALTH SYSTEM
Management's Summary Schedule of Prior Audit Findings (Continued)
Year Ended September 30, 2012

2011-1: Borrower Data Transmission and Reconciliation (Direct Loan)

Issue: The Company is not performing the Direct Loan Borrower Reconciliation in accordance with the specified federal requirements.

Criteria: Federal requirements specify that the Company must perform the Direct Loan Borrower Reconciliation on a monthly basis. In doing so, the Company is required to reconcile the School Account Statement provided by the Common Origination Disbursement System with the College's financial records.

Effect: The Company is not in compliance with federal requirements.

Cause: The Company did not perform the proper reconciliation on a monthly basis.

Recommendation: A review of the monthly reconciliations must be performed by the Controller to ensure that they are completed accurately and within a timely manner.

Corrective Action Plan: Documented monthly reconciliations have been put in place subsequent to year end.

Status: Resolved

2011-2: U.S. Department of Housing and Urban Development Mortgage Insurance Reporting

Issue: The Company did not submit required financial reporting for the first and fourth quarters of the fiscal year ended September 30, 2011 to the U.S. Department of Housing and Urban Development (HUD) within the required timeframe.

Criteria: The Company's Regulatory Agreement with HUD dated December 7, 2004 requires quarterly unaudited financial reports be submitted to HUD within forty days following the end of each quarter.

Effect: The Company is not in compliance with HUD requirements.

Cause: The Company did not submit required financial reporting on a timely basis for the first and fourth quarters of the fiscal year ended September 30, 2011.

Recommendation: The Company should develop a system that incorporates the submission of the required HUD reporting into its monthly close process. In addition, this system should be monitored by someone independent of the actual submission process to ensure all reports are submitted in the required timeframe.

GENERAL HEALTH SYSTEM

Management's Summary Schedule of Prior Audit Findings (Continued)
Year Ended September 30, 2012

Corrective Action Plan: Required periodic submissions to HUD will be reviewed by the Director of Finance to ensure the requirements are met. Due dates have been scheduled for notification to the Senior Accountant, Manager and Director of Finance.

Status: Resolved



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To the Board of Trustees
General Health System

In connection with our audit of the consolidated financial statements of General Health System (the Company) as of and for the year ended September 30, 2012, we identified one deficiency in internal control over financial reporting (control deficiency).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operations exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Included in the attachment to this letter are descriptions of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A Professional Accounting Corporation

December 28, 2012

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

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2012-1: Tracking of Restricted Net Assets

Observation: During the course of our audit, we sensed that there was a level of uncertainty amongst accounting personnel as to their certainty on the classification of donor restricted net assets. The uncertainty seemed to stem from not being familiar with process of communications between what development receives and what accounting is aware of.

Recommendation: We recommend that management evaluate the process for communicating fundraising successes between development and accounting and that the process include periodic reviews between the two departments. We recommend that the process include following the protocol of a written policy that ensures that:

- Fund restrictions are identified and properly tracked.
- Restricted net assets are properly released from restriction when restrictions are fully met.
- Funds are properly classified as unrestricted, temporarily restricted, or permanently restricted.
- Net asset classification is periodically reviewed by an appropriate member of management.

Status: Management plans to perform a review of funds to determine applicable restrictions related to net assets.

Management's Response: A policy and procedure has been put in place for accounting to review fund documentation held at the foundation on a semi-annual basis to ensure that all funds are properly classified as unrestricted, temporarily restricted, or permanently restricted. This will be reviewed by the director of accounting, also on a semi-annual basis. The accounting department also meets on a monthly basis with foundation management to review all fund balances.